

ORIGINAL



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MEMORANDUM

30

TO: Docket Control

FROM: Ernest G. Johnson *EA for EGJ*
Director
Utilities Division

DATE: December 7, 2007

RE: STAFF REPORT FOR THE JOINT APPLICATION OF MATRIX TELECOM, INC., AMERICATEL CORPORATION AND STARTEC GLOBAL OPERATING COMPANY FOR APPROVAL TO PLEDGE THEIR ARIZONA ASSETS PURSUANT TO A.R.S. §40-285 (DOCKET NOS. T-03228A-07-0526, T-03517A-07-0526 and T-20522A-07-0526)

Attached is the Staff Report for the joint application of Matrix Telecom, Inc., Americatel Corporation and Startec Global Operating Company for approval to pledge their Arizona assets pursuant to A.R.S. §40-285. Staff recommends conditional approval of the requested authorization.

Any party to this procedure who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before December 21, 2007.

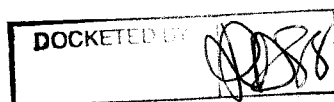
EGJ:PMC:red

Originator: Pedro M. Chaves

Attachment: Original and fourteen copies

Arizona Corporation Commission
DOCKETED

DEC - 6 2007



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AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Matrix Telecom, Inc., et al
Docket Nos. T-03228A-07-0526 et al

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

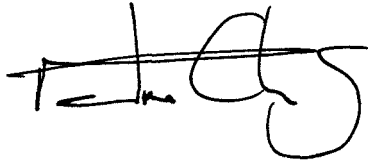
**MATRIX TELECOM, INC.,
AMERICATEL CORPORATION AND
STARTEC GLOBAL OPERATING COMPANY
DOCKET NOS. T-03228A-07-0526, T-03517A-07-0526 AND
T-20522A-07-0526**

**APPLICATION FOR APPROVAL
TO PLEDGE THEIR ARIZONA ASSETS
PURSUANT TO A.R.S. § 40-285**

DECEMBER 7, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Matrix Telecom, Inc., Americatel Corporation and Startec Global Operating Company, Docket Nos. T-03228A-07-0526, T-03517A-07-0526 and T-20522A-07-0526, is the responsibility of the Staff member listed below: Pedro M. Chaves is responsible for the review and financial analysis of the Company's application.

A handwritten signature in black ink, appearing to read 'Pedro M. Chaves', with a stylized, looping flourish at the end.

PEDRO M. CHAVES
PUBLIC UTILITIES ANALYST III

EXECUTIVE SUMMARY
MATRIX TELECOM, INC, AMERICATEL CORPORATION AND STARTEC
GLOBAL OPERATING COMPANY
DOCKET NOS. T-03228A-06-0586 ET AL

On September 13, 2007, Matrix Telecom, Inc. ("Matrix"), Americatel Corporation ("Americatel") and Startec Global Operating Company ("Startec") collectively ("Applicants") filed an application with the Arizona Corporation Commission ("Commission") requesting that the Commission authorize them to pledge their assets in the State of Arizona pursuant to A.R.S. §40-285.

Matrix is a Texas corporation with principal offices located at Dallas, Texas. In Arizona, Matrix is authorized to provide competitive resold inter-exchange telecommunication services and competitive resold local exchange service. Americatel is a Delaware corporation with principal offices located at Miami, Florida. In Arizona, Americatel is authorized to provide competitive interLATA and intraLATA resold telecommunications service except local exchange service. Startec is a Delaware corporation with its principal offices located at Rockville, Maryland. In Arizona, Startec is authorized to provide resold inter-exchange telecommunications services.

The Applicants seek authority to pledge their Arizona assets in connection with a Commitment Letter and Term Sheet ("Loan Documents") along with an amended and restated credit agreement anticipated by the Loan Documents ("A&R Credit Agreement"). The Applicants will all be jointly and severally co-borrowers under the A&R Credit Agreement.

Staff concludes that a pledge of the Applicants' assets would not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize the Applicants request to encumber their assets in the State of Arizona pursuant to A.R.S. §40-285 subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

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Introduction

On September 13, 2007, Matrix Telecom, Inc. ("Matrix"), Americatel Corporation ("Americatel") and Startec Global Operating Company ("Startec") collectively ("Applicants") filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to pledge their assets in the State of Arizona pursuant to A.R.S. §40-285.

Public Notice

On November 27, 2007, the Applicants filed an affidavit of publication verifying public notice of its financing application. The Applicants published notice of their financing application in the *Arizona Business Gazette* on November 15, 2007. The *Arizona Business Gazette* is a daily newspaper of general circulation in the county of Maricopa, State of Arizona. The affidavit of publication is attached along with a copy of the Notice.

Background

Matrix is a Texas corporation with principal offices located at Dallas, Texas. In Arizona, Matrix is authorized to provide competitive resold inter-exchange telecommunication services¹ and competitive resold local exchange service.²

Americatel is a Delaware corporation with principal offices located at Miami, Florida. In Arizona, Americatel is authorized to provide competitive interLATA and intraLATA resold telecommunications service except local exchange service.³

Startec is a Delaware corporation with its principal offices located at Rockville, Maryland. In Arizona, Startec is authorized to provide resold inter-exchange telecommunications services.⁴

The Applicants are affiliate companies that have the same parent company, EnergyTRACS Acquisition Corp. ("EnergyTRACS") which in turn is a subsidiary of Platinum Equity, a limited liability company formed under the laws of Delaware with principal offices in Beverly Hills, California.

Purpose and Description of the Requested Approval

On September 6, 2007, the Applicants, MTAC Holding corporation, Matrix Telecom of Virginia, Inc., Trinsic Communications of Virginia, Inc., Startec Global Communications Corporation, Startec Global Canadian Holding Company, EnergyTRACS and HBK Investments

¹ Decision No. 65926, dated May 16, 2003.

² Decision No. 68343, dated December 9, 2005.

³ Decision No. 61054, dated August 6, 1998.

⁴ Decision No. 63370, dated February 16, 2001; and Decision No. 69573, dated May 21, 2007.

L.P.⁵ entered into a Commitment Letter and Term Sheet ("Loan Documents") along with an amended and restated credit agreement anticipated by the Loan Documents ("A&R Credit Agreement").

The Loan Documents and the A&R Credit Agreement will be implemented upon receipt of all regulatory approvals. The Applicants will become jointly and severally liable co-borrowers for debt obligations of up to \$120 million consisting of a \$71.5 million term loan and a \$48.5 million revolving credit facility. In addition, the Applicants will pledge their assets as collateral for the debt.

Financial Analysis

In the instance of utilities providing service to captive customers in a non-competitive circumstance, A.R.S. §40-301 prohibits authorization of debt unless the Commission finds that the debt issuance is within the corporate powers of the applicant, is compatible with the public interest, with sound financial practices and with the proper performance by the applicant of service as a public service corporation and will not impair its ability to perform that service. However, pursuant to A.R.S. §40-301(D), foreign public service corporations providing communication service whose facilities are also used in interstate commerce are exempt from application of the statute. Staff finds that the Applicants satisfy the criteria for exemption from A.R.S. §40-301 for the A&R Credit Agreement.

Each of the Applicants requests authorization to pledge assets as security for the A&R Credit Agreement. An Arizona statute requires public service corporations to obtain Commission authorization to encumber certain utility assets.⁶ The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. In this instance, a pledge of the Applicants' assets should not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Therefore, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Compliance

There are no compliance issues with Matrix, Americatel or Startec.

⁵ And/or one of its affiliates, including PCRL III Investments L.P.

⁶ See further, A.R.S. §40-285(A)

Conclusion and Recommendations

Staff concludes that a pledge of the Applicants' assets would not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends that the Commission authorize the Applicants request to encumber their assets in the State of Arizona pursuant to the A&R Credit Agreement subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

Staff further recommends authorizing the Applicants to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that the Applicant file with Docket Control within 60 days of the execution of any financing transaction authorized herein.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON – Chairman
 WILLIAM A. MUNDELL
 JEFF HATCH-MILLER
 KRISTIN K. MAYES
 GARY PIERCE

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AZ CORP COMM
Director Utilities

IN THE MATTER OF THE JOINT APPLICATION) DOCKET NO. T-03228A-07-0526
 OF MATRIX TELECOM, INC., AMERICATEL) DOCKET NO. T-03517A-07-0526
 CORPORATION, AND STARTEC GLOBAL) DOCKET NO. T-20522A-07-0526
 OPERATING COMPANY FOR APPROVAL TO)
 PLEDGE THEIR ARIZONA ASSETS)
 PURSUANT TO A.R.S. § 40-285)

NOTICE OF FILING AFFIDAVIT
OF PUBLICATION

Matrix Telecom, Inc., Americatel Corporation and Startec Global Operating Company
 hereby submit the attached affidavit of publication.

RESPECTFULLY SUBMITTED this 27th day of November, 2007.

ROSHKA DEWULF & PATTEN, PLC/

By



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 Roshka, DeWulf & Patten, PLC
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1 Original and 17 copies of the foregoing
2 filed this 27th day of November 2007 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copy of the foregoing hand-delivered/mailed
8 this 27th day of November 2007 to:

9 Lyn Farmer, Esq.
10 Chief Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Kevin Torrey
16 Legal Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Ernest G. Johnson, Esq.
21 Director, Utilities Division
22 Arizona Corporation Commission
23 1200 West Washington
24 Phoenix, Arizona 85007

25
26 By Mary Ippolito
27

Arizona Business Gazette

The business resource

PO BOX 194
Phoenix, Arizona 85001-0194
(602) 444-7315 FAX (602) 444-7364

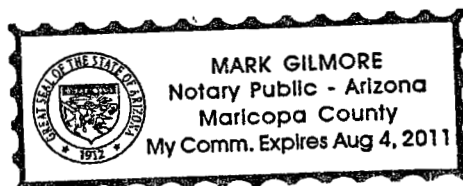
STATE OF ARIZONA
COUNTY OF MARICOPA

} SS.

Ed Carlise, being first duly sworn, upon oath deposes and says: That of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published weekly at Phoenix, Arizona, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates indicated.

11/15/2007

Sworn to before me this
15TH day of
NOVEMBER 2007



A handwritten signature of Ed Carlise in black ink, written over a horizontal line.

A handwritten signature of the Notary Public in black ink, written over a horizontal line.

Notary Public

Public Notice of Filing of Application to Pledge their Arizona Assets in Connection with Certain Debt Financing of Matrix Telecom, Inc. American International Corporation and Startec Global Operating Company. Docket Nos. T-0322A-07-0526; T-03517A-07-0526; T-20522A-07-0526. Matrix Telecom, Inc., American International Corporation and Startec Global Operating Company (collectively, "Applicants") filed an application with the Arizona Corporation Commission on September 14, 2007, asking for authorization to pledge their assets in the State of Arizona in connection with certain debt financing arrangements. This Application is available for inspection during regular business hours at the office of the Commission located at 1200 West Washington Street, Phoenix, Arizona 85007, and at the office of Applicants' legal counsel, Michael Patten, Esq., 400 West Washington Street, Suite 800, Phoenix, Arizona 85007. The Commission may grant the Application without a hearing. If you have any questions concerning this Application, have objections, or wish to appear for or want information or intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 602-222-7000. The Commission does not discriminate on the basis of disability in admissions to public meetings. Persons with disabilities may request a reasonable accommodation, such as a language interpreter, as well as request this document in an alternative format by contacting Linda Hogan, ADA Coordinator, voice phone number 602-222-6931, or email l.hogan@azcc.gov. Requests should be made as early as possible to arrange the accommodation. Pub. November 15, 2007.